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TAGS: [PGOV](#) [PHUM](#) [PREL](#) [HK](#) [CH](#)

SUBJECT: HONG KONG OBSERVERS SEE CHINA'S SOCIAL UNREST  
UNDER CONTROL (FOR NOW)

REF: A. BEIJING 484

[B](#). BEIJING 448

[C](#). SHANGHAI 039

Classified By: Consul General Joe Donovan for reasons 1.4 (B,D).

[1](#)1. (C) Summary and Comment: Hong Kong-based China watchers assess that China's vast cash reserves will prove its most powerful tool to "buy time" and stave off large-scale discontent by the nearly 27 million unemployed migrant workers and college graduates. Beijing has aggressively adopted measures to encourage both these groups to explore new types of employment, such as providing loans and other incentives for working in smaller businesses. Central authorities have also instructed universities and local authorities to help absorb the excess labor and address grievances before they escalate into widespread social discord, our local contacts report. Beijing appears willing to allow local governments increased flexibility in implementing initiatives based on local needs, but will crack down when local officials are seen to have stepped out too far. In addition to this new flexibility, some provincial governments likely are sitting on hidden fiscal reserves that should allow them to ride out the crisis. Regions sometimes resist Beijing, usually by arguing that, if not permitted to implement some local initiative, they cannot guarantee social stability, according to Hong Kong China watchers. End summary and comment.

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Central Government Tackles Unemployment Woes  
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[1](#)2. (C) Before the Lunar New Year, the central government estimated over 20 million migrant workers (roughly equivalent to just over 15 percent of China's migrant labor force) would remain unemployed after the holiday, and feared widespread discontent and protests. Hong Kong University (HKU) business professor and regular consultant to mainland provincial and municipal governments Michael Enright sees unemployment in the construction sector as the easiest for the central government to address through stimulus projects. Most of the projects will be in infrastructure and through the state housing sector. Our contacts also judge the central government has ordered local authorities to remain attuned to workers' needs and to provide the unemployed with alternative means of earning a living. Veteran political commentator and professor Johnny Y.S. Lau told us local officials have been instructed to implement the "san shu", which consists of "shu dao" (remove barriers and actively address grievances), "shu tong" (mediate), and "shu li" (assist workers to return to their home villages).

[1](#)3. (C) China's universities are expected to turn out just over six million graduates in a few months. They will join roughly one million 2008 graduates that are still unemployed. The central government has launched several aggressive initiatives to help absorb this soon-to-be seven

million-strong force. The State Council announced incentives for new graduates to perform service at the "grassroots" level by working in rural areas and in smaller start-up enterprises. Universities have been encouraged to expand enrollment, giving students the option of putting off their job search in favor of pursuing an advanced degree. Central Policy Unit (the Hong Kong government's internal think-tank) Senior Researcher Shiu Sin-por told us the PRC Ministry of Education has directed schools to abandon the 3-year work experience prerequisite for enrolling in Masters of Business Administration (MBA) programs. This policy risks, however, lowering the overall quality of an MBA education, says Shiu, and merely postpones the inevitable challenge of having an unprecedented number of graduates flood the labor market in a few years.

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Measures May Be Enough (For Now)  
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14. (C) Supporting the views reported in ref C, Hong Kong Baptist University Government and International Studies Department Head Jean-Pierre Cabestan contends the majority of migrants have already returned to the cities. They either are no longer accustomed to rural life or the farmland can't support the extra labor. Many of these migrants may not find jobs in the cities, but they have a built-in support network among relatives and/or other acquaintances living in the "migrant villages" that surround many of China's larger cities. They can rely on short-term financial support from their neighbors and part-time work to scratch out a living. Cabestan also argues that while the tech-savvy generation of

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college graduates is more willing to make use of blogs and "chat room" fora to express their complaints, the shortage in jobs will cause these graduates to compete vigorously, reducing the likelihood that they will join forces against the establishment.

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Will Local Governments Play Ball?  
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15. (C) The success of the central government's policies will depend greatly on the ability and cooperation of local governments in implementing the measures. HKU's Enright contends that up to the time of the financial crisis, Hu Jintao had succeeded in "parachuting" his people into positions of leadership around the country to an extent that in any given province or national-level municipality, at least one of the two leading positions (Party Secretary or governor/mayor) was a Hu appointee. As a result, regional leaders were willing to implement policies imposed by central fiat, which might be difficult locally, such as encouraging manufacturers to move up the value chain. The financial crisis, however, has produced a volte-face, says Enright. Regions have been told they now should follow what makes sense locally, including on approving foreign investment. Enright noted the new guidance on foreign investment is particularly striking since, before the downturn, regional leaders were so used to strong central control they had been routinely submitting for Beijing review even proposals at a level they had authority to approve. Similarly, environmental restrictions have been watered down or scrapped entirely.

16. (C) Veteran China-watcher and Chinese University of Hong Kong Professor Willy Lam Wo-lap, however, believes Beijing is actually tightening up control of regional officials taking initiatives in order to maintain control during the economic crisis and year of sensitive anniversaries. Lam noted a number of senior regional leaders were attempting to use incentives and other local remedies to restart local real estate markets, in which most of them have a financial stake. Beijing has attempted to block this, with the Ministry of

Construction issuing a cease-and-desist order. That said, Lam sees the regions as holding a trump card: they are telling Beijing that if it does not allow them to implement some local initiative, they cannot guarantee social stability.

¶7. (C) Enright contends provincial governments have been adjusting their Gross Domestic Product (GDP) numbers down in recent times to appear responsive to central commands to cool down macroeconomic growth. As a result, in addition to the national foreign exchange reserves, Enright believes many of the more prosperous provinces are sitting on hidden reserves of their own. (Comment: While Enright did not name the provinces, we suspect he is likely referring to the export-oriented provinces of Guangdong, Guangxi, Zhejiang and Fujian. End Comment.) These resources should allow the provinces to ride out the crisis, provided it does not drag on much beyond the end of 2010.  
DONOVAN